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USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
APRIL 21-25, 2008

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11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of April 28 - May 2, 2008, including the
following items:

- A SEPARATE DEPARTMENT OF PHARMACEUTICALS?
- ADDITIONAL GOI 'ANTI-INFLATION' MEASURES INCLUDE EXPORT
- KV KAMATH IS NEW PRESIDENT OF CII FOR 2008-09
- U.S. SLOWDOWN IMPACTING INDIAN TEXTILES INDUSTRY
- SEZ POLICY UNDER ATTACK
- CABINET APPROVALS PROPOSAL FOR DEVELOPMENT OF PRIVATE
AIRPORTS
- PARLIAMENT PASSES UNION BUDGET 2008-09
- INDIA LAUNCHES 10 SATELLITES WITH ONE ROCKET
- MOTOROLA INAUGURATES NEW MANUFACTURING FACILITY
NEAR CHENNAI

A SEPARATE DEPARTMENT OF
PHARMACEUTICALS?

12. (U) The GOI is reportedly planning to establish a new department
of pharmaceuticals within the Ministry of Chemicals and Fertilizers
(MCF). Press reports describe a "hectic debate" regarding price
regulation of pharmaceuticals, with the MCF engaged in finalizing a
new drug pricing policy. At present the drug price regulator is the
National Pharmaceutical Pricing Authority (NPPA), but a GOI
committee of secretaries will decide whether NPPA will be a part of
the new department or whether it will continue as an autonomous
body. If the new department proposal is approved, it could bring
together the functions of various GOI agencies dealing with
different aspects of the pharmaceutical industry, such as the
Ministry of Health (quality of medicines), Ministry of Chemicals and
Fertilizers (pricing and regulation), Ministry of Environment and
Forests (clinical trials) and the Ministry of Science and Technology

(drug research projects).

¶3. (U) Comment. The GOI's impetus for creating a stand alone department of pharmaceuticals is its recognition of the sector's importance as a sunrise industry. However, we are skeptical that such an extensive reengineering of the GOI bureaucracy, even when clearly in the interest of a booming sector, will take place anytime soon. End comment.

ADDITIONAL GOI 'ANTI-INFLATION' MEASURES
INCLUDE EXPORT DUTIES AND CUTS IN IMPORT

¶4. (U) After inter-ministerial consultations, the GOI on April 28 imposed export duties on various steel products ranging from 5 to 15 percent in a bid to contain a domestic demand-supply imbalance and rising prices of steel. The GOI also reduced the customs duty to nil for basic steel inputs like metallurgical coke, ferro-alloys, and zinc, while abolishing the countervailing duty on imported steel products used in construction. Various steel products like pig iron, mild steel products, hot-rolled coil, cold-rolled coil, bars, rods and angles have been exempted from the basic custom duty.

¶5. (U) Steel prices have reportedly risen over 60 percent in the past year. According to industry sources, price hikes have been frequent in recent months. In response to various GOI informal appeals, Indian steel companies have recently agreed to a voluntary freeze on prices. Prior to the latest announcement of steel export duties, the GOI has already taken many measures in recent months to stabilize steel prices in the domestic market, such as reducing the import duty on scrap metal inputs to zero from 5 percent and the withdrawal of export incentives.

¶6. (U) The GOI also announced some additional duty changes to rein in food prices. The measures include an export levy of Rs. 8,000 (approx \$200) per ton on basmati rice and a 16.7 percent reduction in the minimum export price of non-basmati rice to \$1,000; reduction

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in custom duty on skimmed milk powder to 5 percent from 15 percent for a tariff rate quota of 10,000 tons; and reduction in import tariff for butter oil to 30 percent from 40 percent.

KV KAMATH IS NEW PRESIDENT
OF CII FOR 2008-09

¶7. (U) Mr. KV Kamath, CEO of ICICI Bank, on May 1 became the President of the Confederation of Indian Industry (CII - India's largest industry chamber of commerce) for the year 2008-09. He was the Vice President of CII during 2007-08 and succeeds Sunil Bharti Mittal of Bharti Airtel. Kamath started his career in 1971 at ICICI (originally a public sector unit - Industrial Credit and Investment Corporation of India), but moved to the Asian Development Bank for some time before returning to a privatized ICICI as its CEO in 1996.

Under his leadership, ICICI has transformed itself into a modern financial services group with ADRs listed on the NYSE. Kamath did his MBA from IIM-Ahmedabad.

U.S. SLOWDOWN IMPACTING INDIAN
TEXTILES INDUSTRY

¶8. (U) The Indian garment and textiles industry is facing lower demand from U.S. consumers, with retailers such as Wal-Mart, Gap, Nike, and Target placing fewer orders for readymade garments and fabrics from India. Garment exporters are reporting both supply and demand hurdles, attributing a deceleration in business activity both to increased cotton prices and increased global competition, while facing decreased U.S. demand. An example is Gokaldas Exports, which is India's largest garments exporter and 50.1 percent owned by the U.S. private equity firm Blackstone. The company earns about 96 percent of its revenues from exports and employs over 54,000 workers, but reports its products have become less competitive in the international market.

¶9. (U) According to the Apparel Export Promotion Council (AEPC), orders are down about 20 percent from large US retailers, compressing industry profits margins. AEPC also notes the negative impact of the rising rupee on garment exporters. Indian garment exporters are now looking at the European market as an alternative destination for their products. There is considerable demand for Indian garments from European retailers, such as Tesco. However, AEPC is concerned that the US slowdown may indirectly hit demand from European retailers. The domestic market within India is also booming and offers opportunities to garment manufacturers to offset lost business.

SEZ POLICY UNDER ATTACK

¶10. (U) Alleged manipulations in land acquisition deals by some Indian real estate companies from southern Indian states has triggered the latest round of debates on the success of special economic zones (SEZs) policy. Earlier this week, both the opposition party BJP and the Congress Party's Left Party allies in the Parliament questioned hasty approvals of SEZs by the GOI over the last two years. Commerce and Industry Minister Kamal Nath responded to these accusations on April 28 and emphatically stated that the GOI is open to review the SEZ Act to address any problem areas. There has been considerable controversy over land acquisition in India for SEZ development. At a time when the ruling coalition is in a weakened position ahead of national elections next year, the recent criticism from the Left Parties could lead to amendments in the SEZ Act as soon as the next Monsoon Parliament in July.

¶11. (U) Defending the GOI stand on SEZs as engines of growth, Minister Nath explained to Parliament that currently 80 SEZs are operational in India, and the GOI plans to assess the overall

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success of its 2005 SEZ Act after having 100 SEZs in place (which is expected later this year). The GOI has approved 439 SEZs (which are not yet operational) involving a total of 60,168 hectares of land. Highlighting the success of SEZs for the Indian economy, Minister Nath pointed out the huge investments of nearly \$17 billion in various SEZs, employment of 177,000 people, and a 13 percent contribution to India's total exports of \$126 billion.

CABINET APPROVALS PROPOSAL FOR DEVELOPMENT OF PRIVATE AIRPORTS

¶12. (U) On April 24, the Indian Cabinet cleared the Ministry of Civil Aviation's proposal to allow private airports, airstrips, and helipads for private development and operation. Both the Ministry and the Directorate General of Civil Aviation (DGCA) have been authorized to clear private airport proposals, subject to security clearance from the Ministry of Home Affairs. While these project proposals do not require Cabinet approval, all private airports will have to meet the DGCA's safety norms.

¶13. (U) Between December 1997 and September 2007, the number of private aircraft in India increased from 96 to 229 and the number of aircraft for non-scheduled use (charters) from 46 to 196. The number of private planes for government and other miscellaneous use has also increased from 247 to 373. Despite the significant increase in private aircraft across India, the number of operational airports remains the same. As such, the latest Cabinet decision is expected to lead to an increase in new airport development to provide better connectivity to distant and remote locations and reduce burdens on current operational airports. Civil Aviation Minister Praful Patel noted that the Cabinet decision is a positive step towards meeting the current requirement of 400 to 500 new private and greenfield airports.

¶14. (U) The Minister also noted, that, in a significant departure from earlier policies, the Cabinet will allow development of a new airport within 150km of an existing airport. However, pending proposals which have a bearing on the contractual obligations of an existing airport developer, like those in Bangalore, Hyderabad, or

Delhi, will need Cabinet approval. The DGCA will be empowered to clear projects beyond 150km of an existing airport as well as those which have neither a bearing on existing contractual obligations nor seek exemption from any rule. The new policy will not have any bearing on the "under consideration" status of the Uttar Pradesh state government's proposal to build an airport in Greater Noida nor growing demands by some to keep the old Bangalore and Hyderabad airports operational for certain services.

¶15. (U) Under the new simplified policy, the Ministry will provide a single window to developers and a steering committee headed by Civil Aviation Secretary Chawla to coordinate the appropriate clearances from various agencies. The Ministry's official statement also clarifies that, "Proposals for airports to handle cargo and/or nonscheduled flights as well as heliports need not be submitted to the ministry for approval and these cases may be considered and decided at the level of DGCA".

PARLIAMENT PASSES UNION
BUDGET 2008-09

¶16. (U) India's budget (Finance bill) for FY 2008-09 was passed by both houses of parliament this week and received President Pratibha Patil's assent. Prior to passing the budget in the lower house of parliament, the Left parties staged a walkout protesting against Finance Minister Chidambaram for not addressing their demands, including a complete a ban on futures trading in essential commodities. Chidambaram added several amendments to the bill, beginning with new fiscal measures to contain inflation. ThU tax holiday for software companies located in parks run by Software

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Technology Parks of India was originally meant to expire in 2009 but has now been extended for one more year until March 2010. This is intended to benefit small and medium sized firms that are finding it difficult to move into the special economic zones due to lack of availability of space and high rental costs. Further, to provide relief to public sector units, tax benefits of the seven year tax holiday has been provided to three oil refineries being built by public sector oil companies, namely, Indian Oil Corporation, Hindustan Petroleum Corporation and Bharat Petroleum Corporation, provided they begin refining not later than the March 31, 2012.

¶17. (U) Press reports indicate that Ram Vilas Paswan, Minister for Fertilizers and Chemicals, has requested higher fertilizer subsidies this year due to spiraling global prices. He has demanded that the subsidy be raised by more than 100% to \$25 billion from \$11.25 billion paid last year to fertilizer manufacturers, for the same quantity of fertilizers. Fertilizer prices around the world have doubled since January 2007. The government, however, is not in favor of increasing fertilizer prices, as that would affect food grain prices. The GOI subsidizes domestic as well as imported fertilizers on behalf of farmers to try to keep food prices affordable. Comment: Many critics argue for targeting the subsidy directly to the farmer, rather than to the fertilizer producer or importer, who does not necessarily pass on the cost savings to the farmer. End comment.

¶18. (U) The Fertilizer Association of India (FAI) also has given indications that the government may have to spend an additional sum of \$6.3 billion during FY 2008-09 on di-ammonium phosphate (DAP) subsidies. Due to severe shortage of phosphoric acid (the main input for manufacturing DAP) in the global market, Indian fertilizer firms have negotiated an import price of \$1985/ton with international suppliers for FY 2008-09 (an increase of 250% over the average price of \$566/ton of imported phosphoric acid during FY 2007-08). The cost of importing DAP is \$1275/ton, while government subsidies enable farmers to purchase it at \$233/ton. The existing subsidy rate for DAP is therefore around \$1000/ton. A hike in the fertilizer subsidy bill will impact the fiscal deficit, targeted at 2.5% of the GDP in the current fiscal year. In FY 2007-08, the government issued fertilizer bonds worth \$1.9 billion to 23 fertilizer companies. The government is likely to issue similar bonds in the current year to compensate the fertilizer subsidies. Note: One of the main drivers for increased prices is more demand for natural gas for

non-fertilizer uses. Natural gas is 90% of the raw material cost for fertilizers such as ammonia. Six new urea plants are being constructed in Iran, Egypt, Nigeria, Oman and Russia, which should increase the supply significantly and bring down prices, over time. End note.

INDIA LAUNCHES 10 SATELLITES
WITH ONE ROCKET

¶19. (SBU) India's space agency (ISRO) successfully launched its workhorse Polar Satellite Launch Vehicle (PSLV) precisely on schedule at 9:23 am on April 28. Fourteen minutes after lift-off, the PSLV began releasing its cargo, which consisted of 10 satellites: a 900-kg mapping satellite (Cartosat 2A), an 83-kg "mini" satellite, and eight "nano" satellites. ISRO's Director of International Cooperation told Consulate Chennai that the initial signals indicate that all satellites are in their prescribed orbits. He added that this launch operationalized ISRO's Commercial Launch Services Agreement with the European Space Agency (ESA), noting that several of the nano satellites were of European origin.

MOTOROLA INAUGURATES NEW
MANUFACTURING FACILITY
NEAR CHENNAI

¶20. (U) Motorola celebrated on April 26 the grand opening of its
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new production facility at Sriperumbudur, 50 km west of Chennai. Henry Mohan, Motorola India's General Manager, told Consulate Chennai that the new facility, focused on the Indian market and able to produce one million mobile phones every month, was necessary to meet the tremendous demand for the company's products. He also explained that the facility will produce 6000 base stations yearly for Indian mobile service providers. Indicating that he expects the Motorola to continue to expand in India, he noted that the new facility currently occupies only one-fifth of the 70 acres of land in Sriperumbudur the company controls. Motorola is only the latest high-tech manufacturer to set up shop alongside the Chennai-Bangalore highway, where the state of Tamil Nadu wants to develop an industrial corridor; its immediate neighbors include major production facilities for Dell, Nokia, Flextronics, Samsung, Caparo, and Hyundai.

¶20. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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